

AR44



**Reichhold  
Chemicals  
Limited**

**Financial Report  
1973  
Rapport Financier**









## Our year at a glance

	1973	1972
Net sales	\$36,971,689	\$27,252,252
Net earnings	1,632,019	980,969
Earnings per common share	3.38	2.04
Book value per common share	16.74	11.95

See note at foot of 10 year financial review on page 10

## Table of Contents

Presidents Message	2, 3
10 years of Sales Growth	4
Consolidated Statement of Earnings and Retained Earnings	5
Consolidated Balance Sheet	6, 7
Auditors Report	7
Consolidated Statement of Changes in Financial Position	8
Notes to Consolidated Financial Statements	9
10 year Financial Review	10
Directors and Officers	11





## To Our Shareholders



The year 1973 was one of solid growth, with the company again setting new records for sales and earnings. It was an exciting and eventful year. A major acquisition, expansion in all divisions, improved efficiency, new laboratory developments and a new direction for the Canadian Chemical Industry all contributed to make 1973 the most dramatic year in our history.

Net earnings for the year were \$1,632,019, or \$3.38 per share, an increase of 65.7% over 1972. Sales were \$36,971,689, up 35.7% over last year.

The balance sheet is consolidated and includes the newest acquisition. However, reported sales and earnings do not include those of the Sears group of companies. Sears, the foremost distributor of printing equipment and supplies in Canada, was acquired in late December 1973 for \$7,156,250 cash and 50,000 treasury shares. The cash outlay was only slightly more than the net current assets plus marketable notes of Sears, so that the liquid position of the company was maintained.

Reichhold's working capital increased during the year by almost \$600,000 even after giving effect to the acquisition of Sears, and after spending over \$2.3 million on capital equipment.

Canada Printing Ink, acquired in 1968, and Sears will continue to operate as separate companies but will work together to provide the best possible service to the Canadian Graphic Arts Industry. Each company has a proven record of success. Together they will reap increased benefits from a coordinated national marketing program, more efficient methods of distribution, and an overall broadening of product lines. Other benefits will accrue from the many opportunities and efficiencies afforded by a broader base and a natural compatibility. Our chemical divisions had an exceptional year with earnings up substantially because of higher volume and more efficient use of equipment. This offset lower gross profit margins on products caused by the high cost of raw materials. New alkyd facilities, which came on stream in early 1973, ran close to full capacity throughout the year. The resurgence of the Forest Products Industry created a high demand for our phenol and urea formaldehyde resins. Phenolic molding compounds reached a new high in popularity for specialized high performance industrial uses. Resins for insulation foams and binders increased in importance for energy conservation. Polyester sales for reinforced plastic made good gains in 1973.

As forecast, we encountered difficulties in obtaining increased amounts of some raw materials. Careful planning and practical laboratory work minimized these problems. The company's technical and sales personnel provided our customers with excellent service to help them make the most efficient use of the materials available. Most of the uncertainties are gone, and now we can plan effectively for the future.

We continued our long term capital expansion program directed toward lowering cost and increasing production. The emphasis in 1973 was on alkyd and polyester expansion in Weston and on major expansion of our printing ink producing capacity across the country. Government income tax reductions and fast write-off incentives allowed us to expand faster than otherwise would have been possible. We budgeted a further \$2 million for expansion in 1974. This includes a major expansion at the North Bay plant. This will help maintain our strong position in the Forest Products Industry for years to come. Our research and development laboratories made significant contributions in 1973. These promise an even brighter future for both resins and printing inks.

Canadian Industry, and the Chemical Industry in particular, is faced with an unparalleled opportunity. We are presently the only Western industrial nation in an advantageous energy and feedstock position. Careful use of our resources could result in major expansion of the Chemical Industry at all levels. Reichhold Chemicals Limited is prepared and anxious to participate fully in this opportunity. Our growth has been planned and orderly and we expect it to continue. Sales and earnings should increase very substantially. This is a result of the addition of Sears and the excellent gains expected in selected chemical groups, printing ink and supplies. Our continued success is due to our dedicated employees. My thanks go to all of them.

GEORGE L. HAGEN,  
President and  
Chief Executive Officer



L'exercice 1973 fut témoin d'un progrès marqué et la compagnie a encore établi de nouveaux records de ventes et de bénéfices. Cet exercice fut très intéressant par suite d'activités remarquables. Une acquisition importante, l'agrandissement de toutes les divisions, une plus grande efficacité, de nouveaux aménagements de laboratoires et une nouvelle orientation pour l'industrie canadienne de produits chimiques, ont contribué ensemble pour faire de 1973 l'année la plus remarquable de notre histoire. Les bénéfices nets pour l'exercice se sont élevés à \$1,632,019 ou à \$3.38 par action, soit une augmentation de 65.7% sur 1972. Les ventes ont atteint le chiffre de \$36,971,689, soit 35.7% de plus que l'an dernier.

Le bilan est consolidé et comprend la plus récente acquisition. Cependant, les ventes et les bénéfices rapportés ne comprennent pas ceux du groupe des compagnies Sears. Sears, le distributeur le plus renommé dans l'équipement et les fournitures d'imprimerie au Canada, est une entreprise acquise vers la fin de décembre 1973 pour \$7,156,250 au comptant et 50,000 actions du trésor. Le déboursé au comptant a été légèrement supérieur au capital d'exploitation plus des notes négociables de Sears, de sorte que la liquidité de la compagnie a été maintenue. Le fonds de roulement de Reichhold augmenta au cours de l'exercice de presque \$600,000 même après avoir tenu compte de l'acquisition de Sears, et après une dépense de plus de \$2.3 millions en immobilisations.

Canada Printing Ink, une entreprise acquise en 1968, et Sears continueront de fonctionner comme compagnies séparées mais travailleront ensemble pour fournir le meilleur service possible à l'industrie canadienne des arts graphiques. Chaque compagnie a un record prouvé de succès. Ensemble, elles réussiront des bénéfices accrus provenant d'un programme coordonné de commercialisation au niveau

national, des méthodes plus efficaces de distribution et une distribution générale plus étendue des assortiments de produits. D'autres avantages proviendront des nombreuses opportunités et des nombreuses méthodes d'efficacité que permettent une base plus étendue et une compatibilité naturelle.

Nos divisions de produits chimiques ont réussi une année exceptionnelle avec des bénéfices substantiellement accrus à cause du volume plus élevé et de l'emploi plus efficace de l'équipement. Cependant, ceci compense pour des profits bruts moindres sur les produits à cause du coût plus élevé des matières premières.

Les nouveaux aménagements d'alkyd qui ont commencé au début de 1973 ont fonctionné à presque complète capacité au cours de toute l'année. Le nouvel élan de l'industrie des produits forestiers a créé une grande demande pour notre phénol et nos résines urée et formaldéhyde. Les composés de moulage phénoliques ont atteint un nouveau sommet de popularité pour les emplois industriels de haut rendement spécialisé. Les résines pour les mousses isolantes et les agglomérés augmentèrent en importance pour la conservation d'énergie. Les ventes de polyester pour le plastique renforcé ont fait des gains appréciables en 1973.

Comme prévu, nous avons éprouvé des difficultés à obtenir des quantités plus grandes de certaines matières premières. Une planification judicieuse et un travail de laboratoire pratique a réduit au minimum ces problèmes. Le personnel des ventes et le personnel technique de la compagnie ont fourni à nos clients un excellent service pour les aider à employer le plus efficacement possible les matériaux disponibles.

Nous avons continué notre programme de dépenses de capitaux à long terme, orienté afin de diminuer les frais et augmenter la production. L'importance en 1973 a porté sur l'agrandissement des opérations d'alkyd et de polyester

à Weston et sur l'agrandissement important de notre capacité de fabrication d'encre d'imprimerie à travers le pays. La diminution d'impôts sur le revenu du gouvernement et l'encouragement de déductions nous ont permis d'augmenter plus vite qu'il n'aurait été possible de le faire autrement.

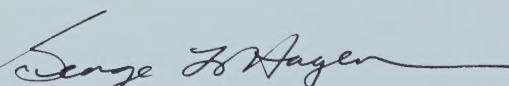
Nous avons établi un budget de \$2 millions de plus pour l'agrandissement en 1974. Ce développement comprend l'agrandissement considérable de l'usine de North Bay. Ceci aidera à maintenir notre position solide dans l'industrie des produits forestiers pendant des années à venir.

Ces réalisations promettent un avenir encore plus brillant pour les encres d'imprimerie et les résines.

L'industrie canadienne et l'industrie des produits chimiques en particulier, envisagent une opportunité sans parallèle.

L'emploi judicieux de nos ressources pourrait contribuer à une expansion importante de l'industrie des produits chimiques à tous les niveaux. Reichhold Chemicals Limited est prête et désireuse de participer pleinement à cette opportunité.

Notre développement a été planifié et ordonné et nous prévoyons qu'il se continuera ainsi. Les ventes et les bénéfices devraient augmenter très substantiellement. Ce fait est attribuable à l'addition de Sears et aux excellents gains prévus dans un groupe choisi de produits chimiques, l'encre d'imprimerie et les fournitures. Notre succès continu est attribuable aux dévoués employés. Je leur adresse donc mes remerciements sincères.



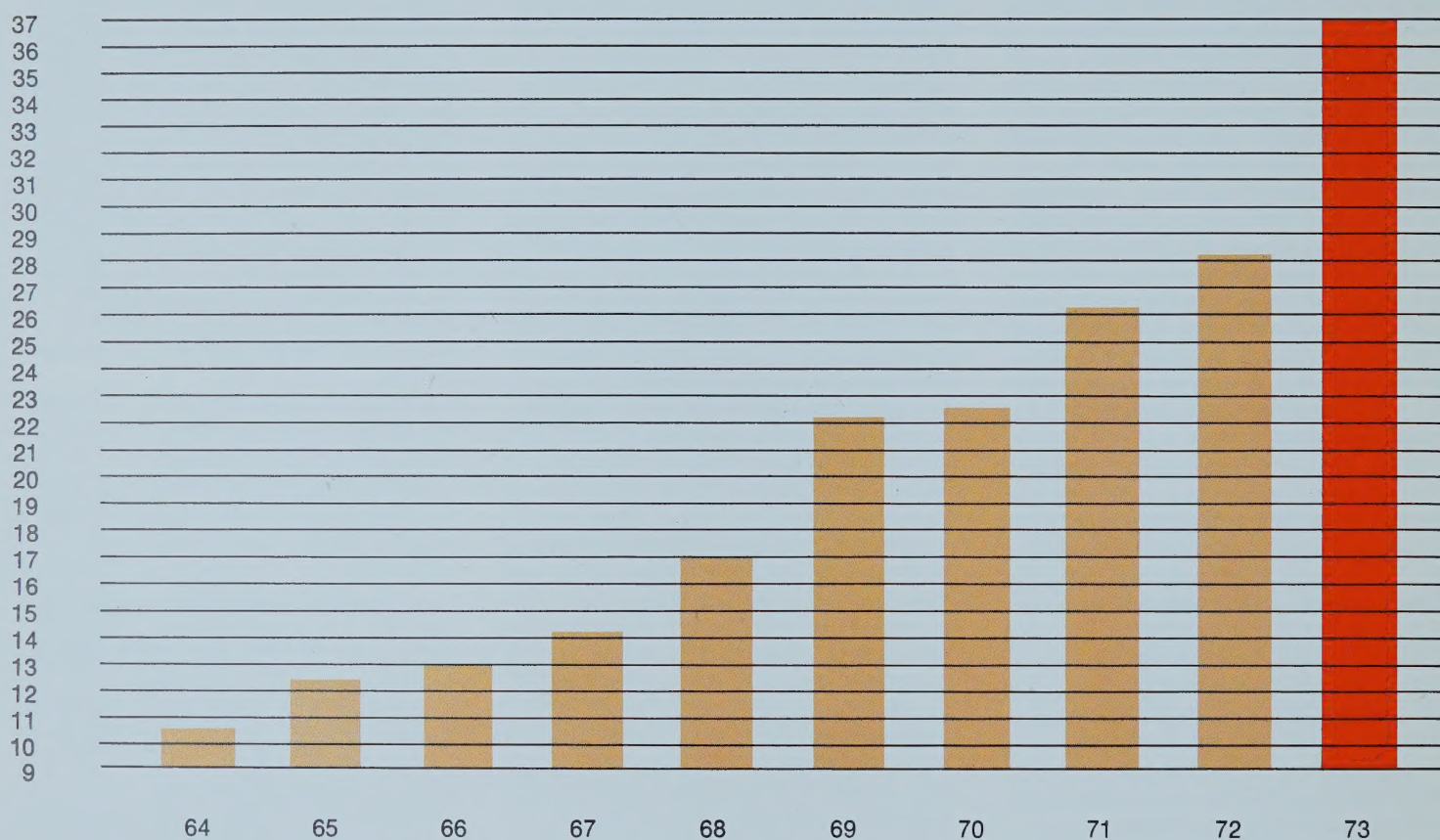
GEORGE L. HAGEN,  
Président et  
directeur administratif en chef





## 10 Years of Sales Growth

(millions of dollars)



### Distribution of sales dollars

(dollars per \$1,000 sales)

	1973	1972
Materials & Container Costs .....	\$ 620	\$ 598
Payroll Costs .....	143	155
Services & Other Expenses .....	98	120
Freight .....	36	39
Depreciation .....	19	21
Federal & Provincial Income Taxes .....	35	31
Net Income Retained .....	44	31
Cash Dividends Paid .....	5	5
	<b>\$1,000</b>	<b>\$1,000</b>

### Dollar sales product mix

32%	31%	18%	19%
Decorative Overlays, Specialty Industrial Resins, Adhesives, Chemicals, Oils, Printing Inks, and Supplies.	Resins for Paint, Floorwax Surface Coatings.	Plastics and Molding Compounds for Electrical Appliances, Trans- portation, Recreation, Industrial, Decorative Applications.	Resins for Forest Products Plywood, Particle Board, Paper.



## Consolidated Statement of Earnings and Retained Earnings

Year ended December 31, 1973 with comparative figures for 1972

	1973	1972
Net sales .....	\$36,971,689	\$27,252,252
Cost of sales .....	27,627,375	19,997,182
Gross profit .....	9,344,314	7,255,070
Selling, general and administrative expenses .....	5,978,303	5,040,649
Net operating profit .....	3,366,011	2,214,421
Other expenses:		
Interest on long term debt .....	340,000	340,000
Other interest .....	96,351	48,333
	436,351	388,333
Earnings before income taxes .....	2,929,660	1,826,088
Income taxes:		
Current .....	942,631	780,015
Deferred .....	355,010	65,104
	1,297,641	845,119
Net earnings* .....	1,632,019	980,969
Retained earnings, beginning of year .....	3,995,677	3,159,076
	5,627,696	4,140,045
Deduct dividends .....	202,131	144,368
Retained earnings, end of year (note 3) .....	\$ 5,425,565	\$ 3,995,677
Earnings per share (note 4) .....	\$ 3.38	\$ 2.04
(Fully diluted earnings per share for 1973 \$2.90; 1972 — \$1.77)		
The above statement of earnings includes the following charges:		
Depreciation .....	\$ 711,830	\$ 580,998
Amortization of deferred charges .....	34,310	37,164
Amortization of goodwill (note 1) .....	16,476	16,476
Directors' and senior officers' remuneration .....	209,919	168,400

See accompanying notes to consolidated financial statements.

\*The statement of earnings for 1973 does not include any operations of the Sears group (see note 1)





## Consolidated Balance Sheet

December 31, 1973 with comparative figures for 1972 (note 2)

	Assets	1973	1972
Current assets:			
Cash .....		\$ 415,716	\$ 157,134
Short term notes receivable .....		—	600,000
Receivables, less allowance for doubtful accounts \$271,146 (1972 — \$241,534) .....		8,803,807	4,298,189
Current portion of lien notes receivable (note 5) .....		1,428,058	—
Inventories, at the lower of cost and net realizable value:			
Raw materials .....		2,141,294	1,301,423
Finished goods .....		5,252,086	2,700,716
Total inventories .....		7,393,380	4,002,139
Prepaid expenses and deposits .....		538,903	141,952
Total current assets .....		18,579,864	9,199,414
Lien notes receivable (note 5) .....		2,711,242	—
Fixed assets:			
Buildings and equipment, at cost .....		14,403,660	11,200,342
Less accumulated depreciation .....		7,269,679	6,322,475
		7,133,981	4,877,867
Land, at cost .....		335,252	136,393
Net fixed assets .....		7,469,233	5,014,260
Other assets, at cost less amortization:			
Goodwill, less accumulated amortization \$45,309 (1972 — \$28,833) (note 1) .....		789,915	135,948
Deferred charges .....		216,899	237,397
		1,006,814	373,345
		<u>\$29,767,153</u>	<u>\$14,587,019</u>

See accompanying notes to consolidated financial statements.





## Liabilities and Shareholders' Equity

	1973	1972
Current liabilities:		
Bank advances and acceptances, secured (note 6) .....	\$ 4,900,530	\$ 813,000
Accounts payable and accrued expenses .....	5,781,036	2,856,833
Income taxes payable .....	903,988	341,385
Current portion of 12% note payable (note 7) .....	1,214,013	—
Total current liabilities .....	12,799,567	4,011,218
12% note payable (note 7) .....	3,285,987	—
8½ % sinking fund debentures, Series A (note 3) .....	4,000,000	4,000,000
Deferred income taxes .....	1,598,614	823,304
Shareholders' equity:		
Capital stock (note 8):		
Common shares without nominal or par value.		
Authorized 2,287,500 shares; issued 531,299 shares		
(1972 - 481,249 shares) .....	1,221,716	321,116
Contributed surplus .....	1,435,704	1,435,704
Retained earnings (note 3) .....	5,425,565	3,995,677
Total shareholders' equity .....	8,082,985	5,752,497
Commitments (note 9)		
	<u>\$29,767,153</u>	<u>\$14,587,019</u>

On behalf of the Board: D. G. McNabb, Director, G. L. Hagen, Director.

### Auditors' Report to the shareholders

We have examined the consolidated balance sheet of Reichhold Chemicals Limited (formerly Reichhold Chemicals (Canada) Limited) and subsidiaries as of December 31, 1973 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as of December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.  
Chartered Accountants,  
Toronto, Ontario, February 25, 1974





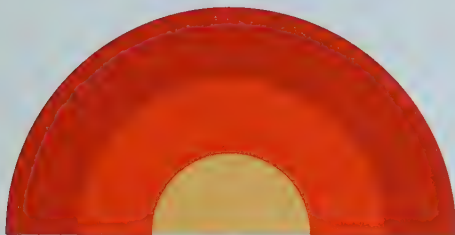
## Consolidated Statement of Changes in Financial Position

Year ended December 31, 1973 with comparative figures for 1972 (note 2)

	1973	1972
Additions to working capital:		
Net earnings .....	\$ 1,632,019	\$ 980,969
Depreciation and amortization .....	762,617	634,638
Deferred income taxes .....	355,010	65,104
Additions to working capital from operations .....	2,749,646	1,680,711
12% note payable (note 7) .....	3,285,987	—
Shares issued (note 8) .....	900,600	300
Total additions to working capital .....	6,936,233	1,681,011
Deductions from working capital:		
Purchase of subsidiary company for \$8,056,250 less its working capital at acquisition of \$4,243,588 (note 2) .....	3,812,662	—
Net additions to fixed assets .....	2,315,543	1,070,913
Additions to deferred charges .....	13,796	600
Dividends .....	202,131	144,368
Reduction in minority shareholders' interest in subsidiary company .....	—	31,140
Total deductions from working capital .....	6,344,132	1,247,021
Increase in working capital .....	592,101	433,990
Working capital, beginning of year .....	5,188,196	4,754,206
Working capital, end of year .....	<u>\$ 5,780,297</u>	<u>\$ 5,188,196</u>

See accompanying notes to consolidated financial statements.





## Notes to Consolidated Financial Statements

December 31, 1973

### 1. Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiaries following the purchase method of accounting, except the consolidated statement of earnings does not include any operations of the Sears group because from date of acquisition December 20, 1973, such operations were immaterial. All material inter-company items and transactions have been eliminated.

Goodwill, being the excess of the cost of shares of subsidiaries over the value of their underlying net tangible assets at the time of acquisition, is being amortized to earnings with respect to amounts at December 31, 1972, over a ten year period and over a twenty year period for the acquisition referred to in note 2. Such amortization in 1973 amounted to \$16,476 (1972 — \$16,476).

### 2. Acquisition of Sears Holdings Limited

On December 20, 1973, the company acquired all of the outstanding shares of Sears Holdings Limited, a company engaged in the graphic arts industry through its wholly owned subsidiaries, Sears Services Limited, Sears Sales Limited and Sears Limited.

Net assets acquired were as follows:

Current assets .....	\$ 7,078,208
Lien notes receivable .....	2,711,242
Other non-current assets at estimated fair values .....	851,277
<b>Total tangible assets .....</b>	<b>\$10,640,727</b>
Goodwill .....	670,443
<b>Total assets acquired .....</b>	<b>11,311,170</b>
<b>Deduct:</b>	
Current liabilities .....	2,834,620
Deferred income taxes .....	420,300
	<b>3,254,920</b>
<b>Net assets acquired .....</b>	<b>\$ 8,056,250</b>

The purchase price was satisfied by cash of \$7,156,250 and the issue of 50,000 common shares for \$900,000.

The excess of cost of net assets acquired over their book value, amounting to \$933,990, was allocated \$263,547 to land and building and \$670,443 to goodwill.

### 3. 8½ % Sinking Fund Debentures, Series A due November 1, 1989

The debentures are secured by a charge on all the assets of the company and certain of its subsidiaries except for the receivables and inventories assigned to secure the bank advances. The debentures may be prepaid at the holders' option on November 1, 1979. The company is

required to establish a sinking fund sufficient to retire in each of the years 1975 to 1979 inclusive, \$220,000 of the debentures and thereafter is to make equal annual payments reducing the principal amount outstanding to \$800,000 by November 1, 1988. The debentures will be redeemable at the option of the company, after November 1, 1974, at a premium of 6.25% reducing to par in the year of maturity. The trust deed securing the debentures contains certain provisions restricting the payment of dividends. At December 31, 1973, \$2,730,750 of consolidated retained earnings was free of such restrictions.

### 4. Earnings per Share

Earnings per share are calculated using the weighted monthly average number of common shares outstanding during the respective years.

### 5. Lien notes receivable (carried in the Sears group)

Lien notes receivable consist of the following:

Gross amounts receivable .....	\$ 5,599,757
Less unearned interest .....	1,460,457
	<b>4,139,300</b>
Less current portion .....	1,428,058
	<b>\$ 2,711,242</b>

### 6. Bank advances and acceptances

Bank advances and acceptances are secured by a general assignment of receivables and by a pledge of inventories.

### 7. 12% note payable

The note is secured by an assignment of the lien notes receivable and a charge on all the other assets of a subsidiary company and is payable in monthly instalments to April 30, 1980 out of collections from the lien notes receivable but may be retired in full after January 1977.

### 8. Capital Stock

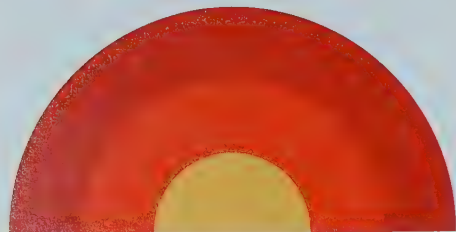
During 1973, 50 common shares were issued for cash on the exercise of warrants as described below and 50,000 common shares were issued in part payment for the shares of Sears Holdings Limited as described in note 2. As of December 31, 1973, 99,925 common shares were reserved for share purchase warrants exercisable to November 1, 1979 entitling each holder to purchase one common share for \$12.61 cash being the new price determined under the trust indenture governing the share purchase warrants upon the issue of the 50,000 shares referred to above.

### 9. Commitments

A subsidiary leases certain properties for annual rentals aggregating \$69,000 under long term leases extending to various dates from 1976 to 1979.

At December 31, 1973, contracts for plant and equipment additions amounted to approximately \$300,000.





## 10 Year Financial Review

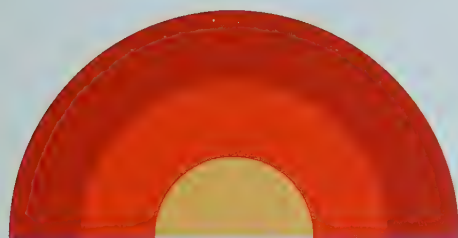
(in \$'000 except per share items)

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net sales .....	<b>\$36,972</b>	\$27,252	\$24,203	\$21,762	\$21,202	\$16,108	\$13,286	\$12,000	\$11,231	\$9,713
Profit before income taxes and special items .....	<b>2,930</b>	1,826	1,046	327	319	631	886	677	908	895
Special profit (loss) items .....	—	—	—	—	—	—	—	—	(25)	—
Net profit after income taxes .....	<b>1,632</b>	981	512	145	217	322	451	368	425	444
Expenditures on fixed assets ..	<b>2,316</b>	1,074	677	742	979	392	658	1,217	868	675
Provision for depreciation and amortization .....	<b>763</b>	635	579	525	632	603	586	479	418	329
Fixed assets at net book value .....	<b>7,469</b>	5,014	4,524	4,401	4,175	3,824	3,909	3,842	3,114	2,664
Net earnings per common share* .....	<b>\$ 3.38</b>	\$ 2.04	\$ 1.06	\$ .30	\$ .45	\$ .67	\$ .99	\$ .80	\$ .93	\$ .97
Dividends paid per common share* .....	<b>\$ .42</b>	\$ .30	\$ .24	\$ .24	\$ .24	\$ .21	\$ .20	\$ .192	\$ .167	\$ .15
Book value per common share* .....	<b>\$ 16.74</b>	\$ 11.95	\$ 10.21	\$ 9.38	\$ 9.31	\$ 8.85	\$ 8.25	\$ 7.48	\$ 6.87	\$ 6.18

### \*Note

Calculation of net earnings per common share is based on the weighted monthly average number of shares outstanding during the respective periods. Book value per common share is based on the number of shares outstanding at the end of the respective periods. The number of common shares and per share calculations have been adjusted where applicable to reflect the stock split in December 1968 whereby two additional shares were issued for each share held prior to the split.





---

## Directors and Officers

---

### Directors

**ROBERT J. ADAMS**  
Vice-President, Eastern Division,  
Reichhold Chemicals Limited  
**CHARLES B. BREEDLOVE**  
Vice-President, Midwest Division,  
Reichhold Chemicals Incorporated  
**PETER J. FASS**  
Executive Vice-President,  
Reichhold Chemicals Incorporated  
**BRIAN GALLAGHER**  
Vice-President, Finance,  
Reichhold Chemicals Limited  
**GEORGE L. HAGEN**  
President and Chief Executive Officer,  
Reichhold Chemicals Limited  
**DONALD G. McNABB**  
Executive Vice-President,  
Reichhold Chemicals Limited  
**WILLIAM H. MUNDEN**  
Vice-President & General Manager,  
The Canada Printing Ink  
Company Limited  
**HENRY H. REICHHOLD**  
President and Chief Executive Officer,  
Reichhold Chemicals Incorporated  
**BRIAN W. SHIELDS, Q.C.**  
Partner, Law firm of Tory, Tory,  
Deslauriers & Binnington

### Officers

**H. H. REICHHOLD**  
Chairman of the Board  
**G. L. HAGEN**  
President and Chief Executive Officer  
**D. G. McNABB**  
Executive Vice-President  
**R. J. ADAMS**  
Vice-President, Eastern Division  
**W. L. ANDERSON**  
Vice-President, Business Development  
**A. B. DAVIE**  
Vice-President, Western Division  
**B. GALLAGHER**  
Vice-President, Finance  
**D. J. McLEOD**  
Vice-President, Central Division  
**R. T. O'SHAUGHNESSY**  
Vice-President, Administration  
**L. ROY**  
Vice-President, Sales, Eastern Division  
**B. W. SHIELDS**  
Secretary

### Plants and sales offices

Weston, Ontario (Head Office)  
Ste. Therese de Blainville, Quebec  
Lindsay, Ontario  
North Bay, Ontario  
Kamloops, British Columbia  
Port Moody, British Columbia

### Principal subsidiaries

**The Canada Printing Ink  
Company Limited**  
Toronto, Ontario  
Montreal, Quebec  
Edmonton, Alberta  
Moncton, New Brunswick  
Ottawa, Ontario  
Vancouver, British Columbia  
Winnipeg, Manitoba

### Sears Limited

Toronto, Ontario  
Montreal, Quebec  
Calgary, Alberta  
Edmonton, Alberta  
Vancouver, British Columbia  
Winnipeg, Manitoba

### Registrar and Transfer Agent

#### Common Stock:

National Trust Co. Ltd.  
Toronto, Montreal, Vancouver,  
Calgary, Winnipeg

#### Auditors:

Peat, Marwick, Mitchell & Co.  
Commerce Court West,  
Toronto



**Annual Report**

This report was lithographed on a  
28"x40" Heidelberg RZO 4-colour,  
using printing inks manufactured by  
The Canada Printing Ink Co. Ltd.









Shareholder's Report

# Reichhold

Chemicals Limited

manufacturing materials for

abrasives • adhesives • agricultural products • appliances • automotive • boats • building panels • chewing gum • closures • electrical devices • fiberglass molding • filament winding • floor polishes • floor tiles • floor waxes • flotation • foundries • furniture • highway maintenance • home construction • industrial construction • insulation • leather • packaging • paint • particle board • paper manufacture • plastic moldings • plywood • polymer production • potting compounds • protective coatings • printing inks • refrigeration • rubber products • textiles • treated fibre products • utensils • varnishes • vinyl products • abrasives • adhesives • agricultural products • appliances • automotive • boats • building panels • chewing gum • closures • electrical devices • fiberglass molding • filament winding • floor polishes • floor tiles • floor waxes • flotation • foundries • furniture • highway maintenance • home construction • industrial construction • insulation • leather • packaging • paint • particle board • paper manufacture • plastic moldings • plywood • polymer production • potting compounds • protective coatings • printing inks • refrigeration • rubber products • textiles • treated fibre products • utensils • varnishes • vinyl products • abrasives • adhesives • agric



# to our shareholders

# à nos actionnaires

Once again record sales and profits were achieved. The second quarter and the first half year were new records for the company. Earnings per share for the second quarter were 84 cents compared with 60 cents for the same quarter last year.

The profits were achieved mainly by higher volume and continued efficiency in operations. However, profit margins on products declined substantially. Raw material prices advanced rapidly from February through June, and continued upward. Most of our product prices were raised in the second quarter, but not fast enough or high enough to offset the increases in raw materials. In the next several months, further raw material price increases are expected. We hope to increase product prices to levels which will restore our traditional profit margins, but this will take substantial and continuous effort.

The tax incentives recently approved by the Canadian Government result in decreasing our estimated income taxes to 43.6% for the first half. This compares with 46.3% for the full year 1972. This tax saving will allow us to increase capital spending for new production facilities this year.

This year is turning out to be most unusual. Demand for our products generally exceeds the ability to supply, not due to lack of capacity, but because of raw material shortages. This condition will probably persist throughout 1974, unless there is a business slowdown in North America or Europe.

Due to the diversity of our operations, it is unlikely that these shortages will seriously affect the company's profit. We fully expect earnings per share to continue to increase during this year and for 1974.

GEORGE L. HAGEN,  
President & Chief Executive Officer.

17th August, 1973



## interim statement of source and application of funds

for the six months ended June 30, 1973 and 1972  
(subject to year end audit and adjustment)

	Second Quarter 1973 (Thousands of Dollars)	First Half 1973	1972
<b>FUNDS PROVIDED:</b>			
Net earnings	404	683	529
Additional charges not requiring cash expenditure:			
Depreciation and amortization	197	379	325
Deferred income taxes	—	—	38
Funds provided from operations	601	1,062	892
<b>APPLIED AS FOLLOWS:</b>			
Additions to plant and equipment (net of proceeds of deposits)	720	1,308	397
Dividends	48	96	67
Reduction in minority shareholders interest in subsidiary company	—	—	31
Total funds applied	768	1,404	495
(Decrease)/Increase in working capital	(167)	(342)	397

Une fois de plus nos ventes et nos profits ont atteint des chiffres record. Le deuxième trimestre et la première moitié de l'exercice ont marqué pour la Compagnie un succès sans précédent. Les bénéfices par action pour le deuxième trimestre s'élevaient à 84 cents, contre 60 cents pour la même période l'année dernière.

Les profits sont issus, en majeure partie, d'une augmentation du volume des opérations et de l'efficacité permanente de l'exploitation. Cependant, les marges bénéficiaires sur les produits ont sensiblement baissé. Le prix des matières premières a augmenté rapidement de février à juin et la tendance à la hausse se poursuit. Le prix de la plupart de nos produits a été majoré au cours du deuxième trimestre mais dans des proportions ni assez rapides ni assez élevées pour compenser les majorations auxquelles nous avons à faire face. Au cours des mois qui vont suivre, nous nous attendons à une hausse supplémentaire des matières premières. Nous espérons pouvoir augmenter le prix de nos produits de façon à préserver nos marges bénéficiaires traditionnelles mais, pour ce faire, nos efforts devront être intensifiés et se poursuivre sans relâche.

Les dégrèvements approuvés récemment par le gouvernement canadien nous ont permis de réduire notre impôt sur le revenu à 43.6% pour la première moitié de l'exercice, contre 46.3% pour l'année entière de 1972. L'économie ainsi réalisée sur les impôts nous permettra cette année d'augmenter nos mises de fonds dans les nouveaux aménagements de production.

Cet exercice aura été exceptionnel dans nos annales. En général, la demande pour nos produits dépasse nos possibilités non pas en raison du volume, mais de la pénurie de matières premières. Cet état de chose se maintiendra certainement en 1974, à moins qu'un ralentissement des affaires ne se produise en Amérique du Nord ou en Europe.

Étant donné la diversité de nos opérations, il est peu probable que cette pénurie affecte sérieusement les profits de la Compagnie. Nous prévoyons que les bénéfices par action continueront à croître pendant l'année et en 1974.

GEORGE L. HAGEN,  
Président et membre des cadres administratifs.

Le 17 août 1973

## comparative sales and income report

for the six months ended June 30, 1973  
(subject to year end audit and adjustment)

	Second Quarter 1973	First Half 1973	1972
<b>Sales</b>	\$ 9,830	\$17,686	\$14,254
<b>Net profit before income taxes</b>	642	1,211	1,059
<b>Estimated income taxes</b>	238	528	529
<b>Net profit after income taxes</b>	404	683	530
<b>Common shares outstanding</b>	481,249	481,249	481,224
<b>Earnings per common shares</b>	\$ 0.84	\$ 1.42	\$ 1.10

Reichhold Chemicals Limited